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Top Secret 219

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NATIONAL INTELLIGENCE DAILY CABLE

Friday 27 January 1978

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LATE ITEM

PORTUGAL: New Cabinet Announced

25X1 [] Portuguese Prime Minister Mario Soares late yesterday unveiled a new, generally center-right cabinet of 16 members, two fewer than in the minority Socialist government that fell on 8 December. The new list, which includes three Center Democrats and two independents, is probably as good a one as could be assembled with the talent available. President Eanes has approved Soares' selections, and the swearing-in will take place on Monday. In the meantime, Soares will set to work on a government program that must be presented to the legislature by Thursday.

25X1 [] Soares was under particular pressure to find competent individuals to head the all-important economic ministries.

25X1 [] Vitor Constancio, who will head a "super ministry" combining the finance and planning portfolios of the previous government, is highly praised by some economists. He is the former deputy governor of the Bank of Portugal and a leading advocate of Portugal's entry into the Common Market. He has most recently been engaged in crucial negotiations with the International Monetary Fund.

25X1 [] Center Democrat Basilio Horta, who will join Constancio on Portugal's economic team as commerce minister, is also thought to be a good choice. Other members of the team, including returning Labor Minister Gonetha and former Planning Minister Sousa Franco, will probably stir less enthusiasm.

25X1 [] Appointing Center Democrat Vitor Sa Machado to the Foreign Ministry may have been Soares' most difficult choice. This ministry has been important to both Soares' and the Portuguese Socialists' international prestige, and giving it up to the Center Democrats represents a major compromise. In any event, Sa Machado will likely find the experience frustrating. Last year, Soares' meddling in foreign affairs prompted the resignation of his first foreign minister.

25X1 [] Perhaps Soares' most useful appointment was Antonio de Almeida Santos to be deputy Prime Minister. The highly regarded Santos is specifically charged with assisting the Prime

Minister in administrative matters, an area in which Soares has proved sorely deficient. A leading figure in the Socialist Party, Santos will also assist Soares in parliamentary relations and other political affairs.

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[redacted] Colonel Firmino Miguel, a distinguished and respected independent, will again serve as Defense Minister. He was to have become a deputy prime minister in charge of defense and security matters until Soares apparently decided that might lead to suspicions that the military was assuming a larger role in government.

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[redacted] Notably absent from the list were Center Democratic Party president Freitas do Amaral and vice-president Amaro da Costa. Amaral will probably be given the presidency of the national assembly, a post which becomes vacant in October. Costa lost his chance for a government post when a breakdown in talks between the Socialists and the Communists made further concessions to the Center Democrats unnecessary.

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[redacted] The first task of the new government will be to complete negotiations with the International Monetary Fund. Until progress in talks with the Fund is evident, major disbursements from other foreign lenders will be delayed.

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[redacted] In the long run, the government must implement austerity measures to combat inflation and reduce its payments deficit. Center Democratic participation in the new government will guarantee Soares majority support on essential legislation, but the absence of any agreement or understanding with the Communists and the labor organizations they control may complicate dealing with economic problems. [redacted]

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[redacted]

National Intelligence Daily Cable for Friday 27 January 1978.

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The NID Cable is for the purpose of informing senior US officials.

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USSR - US - MIDDLE EAST: Harsh Line

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[] The current pause in Egyptian-Israeli negotiations has not eased Soviet concerns about the possibility of "separate" agreements in the Middle East. Soviet spokesmen have conceded that Moscow's position has become "more complicated" as a result of President Sadat's initiatives, and Soviet commentary has become significantly more critical of the role of the US. Moscow clearly anticipates additional Egyptian-Israeli contacts and may foresee less favorable conditions for Soviet-US relations as a result.

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[] The harsher line toward US foreign policy initiatives, particularly US involvement with the Egyptian-Israeli talks, was set last month when President Brezhnev charged that changes in the Middle East had been of a "negative character" and that the situation had been "aggravated sharply." Premier Kosygin underscored Moscow's displeasure two weeks ago by lashing out at Sadat's "unilateral concessions" which, he said, diminished chances for a comprehensive settlement at any Geneva conference.

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[] The most critical assessment of US tactics in the Middle East was made on Monday by Politburo candidate member Ponomarev, who is now visiting the US. Ponomarev accused the administration of "unilaterally renouncing" the US-USSR declaration of October--the strongest language yet used by a key Soviet official on the issue. He did, however, moderate his tone in his address to the House of Representatives yesterday.

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[] For the past two weeks, there has also been a general stiffening of Soviet press comment on US foreign policy in general. President Carter has been singled out for personal criticism for the first time in five months, and Dr. Brzezinski is again being referred to as the "chief administration hawk."

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[] Soviet public lecturers also appear to be perceiving some negative turn in Soviet-US relations. An audience in Leningrad was told, for example, that the outlook is for continued "separatist" talks, which could lead to "aggravation" in Soviet-US relations. The prospect that Syria might become involved in these negotiations, which has presumably been a major but un-stated Soviet concern for the past several weeks, was also raised.

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ISRAEL: Contradictory Attitudes

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[] *Most Israelis support Prime Minister Begin's decision to delay the resumption of the military talks in Cairo as an appropriate and justified response to President Sadat's pressure tactics and to what the Israelis view as a tough, unyielding Egyptian negotiating stance. This consensus, however, masks some uneasiness in Israel over Begin's handling of the negotiations and an ambivalence on the issue of Israeli settlements in the Sinai.*

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[] There has been little reasoned public debate thus far over the importance of these settlements, and Begin has done little to clarify the issue. As a result, the Israeli public remains torn between its desire for peace and its concern for security, symbolized by the settlements.

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[] A recent public opinion poll conducted by Hebrew University illustrates the Israelis' contradictory attitudes. Those polled favor by a wide margin the retention of the Sinai settlements under Israeli sovereignty but oppose almost as strongly any further settlement activity in the occupied territories pending the outcome of peace negotiations. The public also strongly supports Begin's peace efforts but is sharply divided along traditional hawk-dove lines over the specifics of his peace plan.

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[] Until now, Begin's critics have generally faulted him for giving up too much too soon in the Sinai. The Prime Minister

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in turn has used this opposition to justify his refusal to abandon the settlements, contending that no Israeli Government could agree to dismantle these settlements and survive.

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[] A few influential Israeli commentators, however, are starting to question whether the settlements are necessary to Israel's defense, as Begin insists, or are an obstacle to peace with Egypt. The US Embassy in Tel Aviv believes that a growing number of Israelis are beginning to realize the settlements may be an impediment to peace but are uncertain how to resolve the dilemma.

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[] Begin's efforts to placate his rightwing critics and his rhetorical clashes with Sadat are also arousing concern. Moderates within the ruling coalition in particular opposed the cabinet's decision to "thicken" the existing settlements in the northern Sinai, fearing the impact on negotiations. They believe Begin has subsequently overreacted to criticism from Cairo and let his emotions interfere with the talks.

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[] Several cabinet ministers from the Democratic Movement for Change and the Liberals in Begin's Likud bloc reportedly agreed only reluctantly to go along with the decision this week to suspend the military talks, apparently on the understanding that the talks would resume soon.

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[] Their discontent may have contributed to Begin's decision to moderate the tone of his Knesset speech on Monday. In any event, there was general relief in the Israeli parliament that Begin had resisted the temptation to indulge in another verbal battle with Sadat.

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[] Should Begin's hard-line posturing again appear to jeopardize the peace talks, coalition moderates could unite into a more influential bloc. At present, however, they are not well organized nor prepared to take issue with Begin publicly; nor do they have a strong spokesman in the cabinet to press their viewpoint.

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[] Defense Minister Weizman could emerge as a proponent of the moderate position. He does not appear as firmly committed as Begin to retaining the Sinai settlements and has already locked horns with Agriculture Minister Sharon over the settlements issue.

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[] In addition, he sided this week with the moderates in urging an early resumption of the military talks. Weizman is likely to tread cautiously, however, in urging greater flexibility, lest he antagonize Begin and important groups within Likud.

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[] Israeli hard-liners, both inside and outside the coalition, have been much more aggressive and successful than the moderates in pressing their position, especially on the settlement issue. Religious militants of the Gush Emunim sought again this week to dramatize their opposition to Begin's peace plan by establishing an illegal settlement on the West Bank, reneging on a previous understanding they had reached with Begin personally.

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[] Begin could respond more forcefully than he has so far to this kind of challenge, but only if he is prepared to rely more heavily on the support of the Democratic Movement for Change and the Liberals. Thus far, he has sought to temporize and avoid a showdown because many of his hardcore supporters also sympathize with the Gush Emunim and because of his own ideological affinity with Gush leaders.

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[] Neither the moderates nor the hard-liners represent a serious threat to Begin's authority at this point, although the conflicting pressures restrict his room to maneuver. Perhaps more important, they add to the emotional and physical strain Begin is under, which has unquestionably affected this performance in the negotiations. The continued opposition of some of his former close supporters has been particularly frustrating and painful for Begin. []

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JAMAICA: New IMF Negotiations

25X1 [] //Since the International Monetary Fund cut off credits to Jamaica late last month, a patchwork of financing has temporarily averted financial crisis. Negotiations for a new IMF agreement will begin next week. The Manley government already has accepted IMF preconditions. The country is likely to opt for a new three-year stabilization program offered by the IMF, but domestic pressure will make it difficult to stick to any new accord.//

25X1 [] //The two-year IMF standby agreement was negated when Jamaica failed to pass three of the Fund's six performance tests. The drop in net international reserves over the past nine months exceeded the IMF target by \$30 million; net domestic assets held by the Bank of Jamaica exceeded the Fund's limit by 10 percent; and bank credit to the public sector was slightly greater than the target level. As a result, Jamaica became ineligible to draw the remaining \$43 million in IMF credits and the \$60 million in World Bank and commercial loans tied to compliance with IMF guidelines.//

25X1 [] //The IMF has offered to renegotiate the terms of the present standby agreement or to negotiate a new three-year program under the extended fund facility, which could make as much as \$80 million available by early 1979. Jamaica prefers the latter course. Any new IMF program almost certainly will be accompanied by stringent conditions. Nonetheless, it probably will allow Jamaica somewhat greater flexibility in managing its fiscal policies and will permit a slight increase in real income in exchange for more rapid currency devaluations and a tight incomes policy. Real income fell 5 percent last year.//

25X1 [] Jamaica has secured interim financing that will allow the country to meet its payments needs over the next few months. Canada has agreed to a six-month rollover on a \$25 million loan due for repayment next month, and a US commercial bank has extended a \$30 million short-term credit. The UK agreed last week to provide export credits of \$35 million, most of which could be drawn this year.

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[] The bleak outlook for the economy will make it difficult for Jamaica to stick to any new agreement. While a new IMF accord would pave the way for some new loans, the uncertain climate for private investment and sluggish economic performance will probably discourage significant investment. Thus, even with IMF credits and the inflow of delayed funds, imports in 1978 are likely to remain well below the peak 1975 level--still scanty in the eyes of domestic businessmen and consumers.

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[] Manley--under pressure from the dominant moderate wing of the ruling party--probably will be willing to accept an IMF-imposed stabilization program as long as he believes new funds from the Western nations will be contingent on a new accord. Jamaica already has devalued its currency, and in the process has narrowed the differential between its basic and special exchange rates and has accepted the IMF's general negotiating guidelines. Kingston also has raised gasoline prices and eliminated oil subsidies--measures the IMF has long advocated.

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[] Manley will argue forcefully for IMF concessions, however, because he fears that new requirements would weaken political stability, undercut his social programs, and provide new ammunition for ruling party radicals already critical of Manley's submission to IMF demands in the past.

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[] Although Manley probably will continue to seek closer ties with the USSR and Cuba, appreciable financial assistance from them is unlikely. Last month, Jamaica concluded an agreement that provides for the first Soviet project assistance to Jamaica--a large cement plant--which will take a number of years to implement. []

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DJIBOUTI: Political Turmoil

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[] *Time appears to be running out for a peaceful resolution of the rising animosity between Djibouti's rival ethnic groups. The basic cleavage between the countrys Issa and Afar people is being exacerbated by the Ethiopian-Somali war.*

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[] President Gouled, an Issa, appears unwilling to acknowledge the need for reconciliation with the Afars whose representatives resigned from his government last month. He also refuses to open channels of communications acceptable to them.

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He continues to surround himself with fellow Issas, who are supported by Somalia. He may no longer think a peaceful solution is possible.

25X1 [] Local leaders of the Afar community told the US Charge this week that continued lack of presidential action on their complaints will lead to civil war. In that event, the Afars say their only option would be to turn for help to Ethiopia.

25X1 [] Afar leaders insist that there is now a total lack of confidence between the Afars and Issas. In particular, they complain that Afars have been effectively excluded from positions of authority in the Army and the civil service. They think Gouled is the only national leader of sufficient stature to hold the two ethnic groups together but do not believe he has the imagination, strength, or purpose to do so.

25X1 [] The Afar leaders point out that except for a small fringe of militant youths, the Afars are not Marxist and disapprove of the present regime in Addis Ababa. As an illustration of their desperation, however, they said they are prepared to "join even a Socialist Ethiopia" rather than submit to further domination by the Issas and their Somali protectors.

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BRIEFS

Angola

25X1 [] //A letter signed by all the Catholic Bishops in Angola attacking President Neto's government for frequent violations of religious and political freedoms was read at church services throughout the country on 8 January. The Bishops said that freedom of speech and religion had almost disappeared in the country and protested the government's practice of arbitrary arrest and prolonged imprisonment without trial.//

25X1 [] //According to several people who attended mass in Luanda, the letter denounced the newly formed Labor Party as atheistic and warned all Catholics that Communism is alien to the teachings of the Church. The reaction of the Luanda congregation reportedly was first one of shock and then fear that government reprisals would be taken.//

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[redacted] //In what may be the first official response to the letter, the government this week announced that the Catholic radio station would be nationalized and its assets turned over to the Angolan national radio.// The presidential decree states that the existence of a church-operated, private radio station violated the constitution now that the party's Central Committee has assumed responsibility for the mass media. [redacted]

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[redacted]
Tunisia

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[redacted] Violent clashes between striking labor union members and Tunisian police and Army units occurred yesterday in Tunis and two other cities. The government declared a state of emergency and a dusk-to-dawn curfew. The US Embassy in Tunis reported some shooting and a few deaths when mobs of strikers sacked stores and offices. The Army used tear gas and armored personnel carriers to restore calm. The central market, post office, and most public transportation facilities were shut down; utilities and the airport functioned normally.

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[redacted] Labor leader Habib Achour called a 24-hour strike on Wednesday, the first general strike since independence. Relations between labor and the government have been building toward a confrontation for a year. Achour is challenging Prime Minister Nouria's conservative management of the economy and, by implication, Nouria's status as President Bourguiba's political heir.

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[redacted] Nouria seems to have the strong support of Bourguiba and the Army. He will continue to use force to curb demonstrations that threaten to get out of hand, especially if the strike continues today. [redacted]

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Rhodesia

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[redacted] The full text of Prime Minister Smith's press conference on Wednesday indicates that progress is being made toward an internal settlement but that there would be no statement until "the whole package is completed." It is not clear whether serious problems are prolonging the talks, which have been under way since early December, or whether the negotiators are merely discussing a wide array of questions that must be resolved before a settlement can be announced.

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[] Smith's remarks suggest that he and the black nationalist negotiators probably have reached agreement on constitutional safeguards for Rhodesian whites, the principal subject in the first weeks of the negotiations, and are now addressing such issues as the structure of a transition government and the composition and control of the security forces. One press report from Salisbury said that experts attached to the delegations met yesterday and that the negotiators might meet in plenary session before the end of the week. []

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Cyprus

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[] Spyros Kyprianou, who became interim Cypriot President when President Makarios died last August, was proclaimed President by acclamation of the parliament yesterday. He will be sworn in on 28 February for a five-year term. Kyprianou was Minister of Foreign Affairs until 1972, when the Greek junta pressed Makarios to fire him. He then faded from public view until 1976, when Makarios selected him to head a left-center coalition in the parliamentary election. The aura of heir-apparent he acquired at that time, together with the backing of the same leftist-centrist coalition and the Church, account for his unopposed victory.

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[] Kyprianou is himself to the right of center, and he has promised those conservatives who had opposed him that he will follow a nonparty approach and will not do the bidding of his leftist and Communist backers. []

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